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# Message Text

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TAGS: EAIR, IT

SUBJECT: CIVAIR: US-ITALY NEGOTIATIONS

1. SUMMARY: US AND ITALDELS MET IN WASHINGTON, JAN. 23-27. NO PROGRESS WAS MADE IN RESOLVING LONGSTANDING BILATERAL ISSUES. VARIETY OF ITEMS WERE DISCUSSED INCLUDING: STATUS OF REVISIONS PROPOSED OF EXISTING AGREEMENT, US DRAFT CHARTER AGREEMENT, EX POST FACTO REVIEW OF CAPACITY OPERATED BY US AIRLINES DURING SUMMER 1977, CONSULTATIONS ON AIR FARES, ALL-CARGO SERVICES, ITALIAN CHARTER RULES FOR 1978; AND, QUESTIONS RELATING TO ROME AIRPORTS. BOTH SIDES AGREED THAT CONSULTATIONS ON THE REVISION OF THE EXISTING AGREEMENT AND A CHARTER AGREEMENT SHOULD RESUME THIS SUMMER AND DISAGREED ON WHETHER US AIRLINES HAD OPERATED EXCESS CAPACITY
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LAST SUMMER. ITALDEL IMPLIED THAT GOI WOULD NOT IMPOSE FREEZE ON US AIRLINES THIS SUMMER UNLESS ITALIAN INTERESTS WERE BEING HURT. NO RESULT WAS REACHED ON BUDGET FARE APPROVAL BY GOI. END SUMMARY.

2. IN OPENING SESSION OF TALKS, ITALIAN CHAIRMAN, AMBASSADOR ALESSANDRO FARACE, STATED THAT GOI CONCURRED IN USG ASSESSMENT THAT CHARTERS HAD TO BE CONSIDERED IN ANY REVISION OF BILATERAL AGREEMENT SINCE BOTH MODES OF AIR

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TRANSPORTATION WERE LINKED TO SAME MARKET AND ITALIAN GOAL
OF PRE-DETERMINING SCHEDULED CAPACITY COULD BE SUBVERTED
IF CHARTERS WERE LEFT UNCONTROLLED. FARACE AGREED TO CON-
CENTRATE ON IMMEDIATE ISSUES DURING PRESENT TALKS.

3. EX POST FACTO REVIEW OF SUMMER CAPACITY: FARACE SAID
THAT US AIRLINES "PROGRAMMED" 636,407 SEATS ON US-ITALY
SERVICE AND FILED ONLY 286,243 SEATS DURING SUMMER 1977
AND CONCLUDED THAT THIS WAS EVIDENCE OF EXCESS CAPACITY.
IN SECTOR-BY-SECTOR COMPARISON OF ALITALIA TRAFFIC WITH
RELEVANT US AIRLINES BEYOND ROME, FARACE INDICATED THAT
US CARRIAGE ALSO EXCESSIVE AND NOTED THAT IT WAS HARD FOR
ALITALIA TO INCREASE FREQUENCIES ON ROME/CAIRO ROUTE
BECAUSE OF US AIRLINES' UNWARRANTED FIFTH FREEDOM TRAFFIC.
ON CARGO, FARACE CLAIMED THAT US AIRLINES HAD SCHEDULED
63,024 TONS AND CARRIEDONLY 6,741 TONS. HE ARGUED THAT
THIS DAMAGED ITALIAN INTERESTS SINCE ALITALIA WOULD HAVE
ALTERED ITS SCHEDULES IF THE US SCHEDULES HAD BEEN MORE
REALISTIC. US CHAIRMAN MICHAEL STYLES ONCE AGAIN
POINTED OUT THAT ALL PASSENGERS ON AIRCRAFT, INCLUDING
TRANSIT PASSENGERS, SHOULD BE COUNTED AND THAT IF THIS
METHOD AND NOT THE ITALIAN METHOD OF COUNTING ONLY "DIRECT"
PASSENGERS WAS USED, LOAD FACTORS WOULD BE RESPECTABLE 53
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PERCENT FOR PAN AM AND 58 PERCENT FOR TWA. ON CARGO
FLIGHTS, STYLES NOTED US TONNAGE DECREASED BY 30 PERCENT
OVER LAST YEAR AND INDICATED THAT US AIRLINES WERE GREATLY
HANDICAPPED BY GOI BAN OF 747 F. HE INDICATED THAT USG
TOLERANCE FOR BAN ON 747 F WAS AT LIMIT AND THAT APPRO-
PRIATE ACTION WAS BEING CONSIDERED. US CHAIRMAN EMPHA-
SIZED THAT FOR GOI TO INSIST THAT US AIRLINES OPERATED
EXCESS CARGO CAPACITY LAST SUMMER WAS TANTAMOUNT TO
SUGGESTING THAT US SHOULD LEAVE CARGO MARKET ENTIRELY.
RE BEYOND FLIGHTS, IT WAS NOT RELEVANT TO COMPARE US AIR-
LINES VERSUS ALITALIA. WHAT WAS RELEVANT WAS THAT US AIR-
LINES HAD 68 PERCENT SEAT FACTOR BEYOND ROME WHICH MEANT
THERE WAS NO EXCESS CAPACITY.

4. REVISIONS TO AGREEMENT: FARACE REPEATED GOI VIEW
THAT CENTRAL ISSUE WAS CONTROL OF SCHEDULED CAPACITY AND
INDICTED THAT IF THIS MATTER COULD BE RESOLVED TO GOI
SATISFACTION, OTHER ISSUES WOULD SHRINK IN SIGNIFICANCE
FOR GOI AND WOULD BE READILY RESOLVED. HE QUOTED US
JUSTICE DEPT. OPINION OF ALITALIA FARE PACKAGE, WHICH
LINKED HIGH COST OF AIR TRANSPORTATION ON THE NORTH
ATLANTIC WITH EXCESS CAPACITY, AS SUPPORT FOR GOI POSITION
THAT CAPACITY SHOULD BE CONTROLLED. US CHAIRMAN NOTED
THAT USG GENERALLY FAVORED RECENT ALITALIA FARE FILING

BECAUSE IT GAVE PROMISE OF ATTRACTING NEW TRAFFIC AND

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INCREASED USE OF AIRCRAFT THROUGH LOW FARES BUT DID NOT
LIMIT CAPACITY. US CHAIRMAN EXPRESSED INTEREST IN
REVISION OF RATE ARTICLE IN AGREEMENT AND INDICATED USG
MAY HAVE FUTURE PROPOSAL TO MAKE IN THIS AREA.

5. AIR FARES: FARACE SAID US BUDGET FARE WAS "UNSUITED"
TO US-ITALY MARKET AND WOULD CAUSE DISEQUILLIBRIUM TO
ALITALIA FARE PACKAGE. US CHAIRMAN POINTED OUT THAT AIR-
LINES SHOULD BE PERMITTED TO OFFER THE AIR FARES THEY FELT
RESPONDED TO MARKET ALTHOUGH THEY MIGHT DIFFER FROM THOSE
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OFFERED BY OTHER AIRLINES. STYLES NOTED THAT BUDGET FARE
WAS SOLD ONLY ON BASIS OF AVAILABLE SEATS AND THAT THIS
WAS A FORM OF CAPACITY CONTROL IMPLEMENTED BY AIRLINE
DESIGNED TO FILL EMPTY SEATS AND NOT DIVIDE THE MARKET.
FARACE OFFERED TO COMPROMISE BUT US SIDE INDICATED THAT
CONFUSED IATA SITUATION MADE MEANINGFUL COMPROMISE DIFFI-
CULT AND SUGGESTED THAT BUDGET FARE REMAIN IN PLACE WITH
SUBSEQUENT REVIEW UNDER ARTICLE 10. FARACE DID NOT TABLE
COMPROMISE PROPOSAL ON BUDGET FARE (WHICH IN PRIVATE TALK
TURNED OUT NOT TO BE A COMPROMISE AT ALL BUT ABOLITION OF
BUDGET FARE WITHOUT A QUID PRO QUO) AND INDICATED THAT
MATTER WOULD BE CONSIDERED AT HIGHER GOI LEVEL BUT THAT
THE BUDGET FARE COULD NOT BE TOLERATED INDEFINITELY.

6. ITALIAN CHARTER RULES: IN WORKING GROUP SESSION, US
SIDE INDICATED ITS VIEW THAT CHARTER MARKET WAS OVER-
REGULATED AND THAT USG FAVORED LIBERALIZATION OF CHARTER
REGULATIONS. AT US INVITATION TO COMMENT ON REVISED US
CHARTER RULES, DR. LUIGI LIOI DELIVERED HALF HOUR LECTURE
ON NEED FOR CAPACITY CONTROL IN BOTH SCHEDULED AND NON-
SCHEDULED MARKETS. WITH REGARD TO LATTER, LIOI SAID HE
FAVORED A DETERMINATION OF PERMISSIBLE NUMBER OF FLIGHTS
AND A SEASON-BY-SEASON AGREEMENT WITH 50:50 DIVISION OF
THE MARKET. LIOI INDICATED THAT 1978 ITALIAN CHARTER
REGULATIONS WOULD NOT BE MORE STRINGENT THAN IN 1977.
HE SAID ITC PRESENT 20 DAY PRELISTING MAY BE REDUCED TO
15 DAYS AND MINIMUM PRICE SURVEILLANCE WOULD BE SAME AS IN
1977. LIOI OBJECTED TO CONTINUATION OF AFFINITY GROUP
CHARTERS BUT INDICATED A RELUCTANT WILLINGNESS TO PROVIDE
FOR THIS CHARTER TYPE. LIOI PROPOSED AN ITALIAN MOVE
TOWARD A SEVEN DAY MINIMUM STAY PROVISION IF THE USG
WOULD ELIMINATE AFFINITY CHARTERS. WHEN TOLD THAT THIS
WOULD NOT BE POSSIBLE, LIOI INDICATED THAT HE WOULD LOOK
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INTO POSSIBILITY OF A SEVEN DAY MINIMUM STAY FOR ADVANCED

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BOOKING CHARTERS IN ITALY BUT WOULD NOT ALLOW SUBSTITUTION IN ABC'S FROM GENERAL PUBLIC, ONLY FROM WAIT LIST. LIOI SAID THAT PERMISSIBLE OTC DURATION WOULD BE CHANGED TO 7 DAYS/SIX NIGHTS IN 1978. CONCERNING THE ADVANCED BOOKING PERIOD, LIOI INDICATED THAT THE GOI WAS EXAMINING ITS REGULATIONS BUT HE COULD NOT COMMENT ON WHETHER ITALY WOULD LOWER ITS PRESENT LIMIT TO THE 15 DAY PERIOD FAVORED BY THE USG. LIOI SAID THAT ITALY WAS STUDYING THE CO-MINGLING OF UP TO THREE CHARTER GROUPS PER FLIGHT WITH PRE-LISTING REQUIREMENTS. LIOI REFUSED TO REDUCE MINIMUM SIZE OF CHARTER GROUPS FROM 40 TO 20 SEATS AS US SIDE SUGGESTED BECAUSE OF FEAR OF DIVERSION OF TRAFFIC. HE SAID RECONSIDERATION OF THIS POINT WAS UNLIKELY GIVEN THE PATTERN OF CONSULTATIONS ON CIVIL AVIATION MATTERS. LIOI INDICATED THAT GOI WOULD CONTINUE TO REQUIRE PRIOR APPROVAL FOR ONE OR SERIES OF CHARTER FLIGHTS.

7. US CHARTER AGREEMENT: US DEL TABLED DRAFT CHARTER AGREEMENT AND EXPLAINED INTENT, ARTICLE-BY-ARTICLE. ITALDEL ASKED NUMEROUS QUESTIONS AND INDICATED DRAFT WOULD RECEIVE CAREFUL CONSIDERATION BY GOI AND THAT SUBJECT OF CHARTERS WOULD BE DEALT WITH IN SUBSEQUENT MEETING.

8. ROME AIRPORTS: US CHAIRMAN REITERATED USG CONCERN WITH GOI POLICY LIMITING US AIRLINE CHARTER FLIGHTS TO CIAMPINO AIRPORT WHILE ALITALIA WAS FREE TO USE FULIMICINO. FARACE WONDERED WHY USG WAS RAISING SUCH A MINOR PROBLEM. HE SAID ALITALIA OPERATED ONLY 2 PERCENT OF ITS FLIGHTS FROM FIUMICINO AND THAT CIAMPINO RULE APPLIED TO ALL FOREIGN CARRIERS AND WAS NOT DISCRIMINATORY. WE RESPONDED THAT CORRECT FIGURE FOR ALITALIA'S CHARTER MARKET SHARE WAS 20 PERCENT AND THAT WE WERE CONCERNED CUMULATIVE IMPACT OF VARIOUS ITALIAN DISCRIMINATORY PRACTICES.

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9. STANDARD, NON-CONTROVERSIAL MEMCON SIGNED AT CONCLUSION OF TALKS. COPY BEING POUCHED.

10. ASSESSMENT: BEFORE TALKS BEGAN, FARACE ASKED TO SEE STYLES PRIVATELY. HE SAID GOI RECOGNIZED THAT CHARTERS WERE PART OF THE TOTAL PICTURE AND HAD TO BE ADDRESSED, BUT HE COULD NOT AGREE NOW THAT THEY MUST BE PART OF A FINAL PACKAGE AGREEMENT. HE URGED THAT CONFRONTATION BE AVOIDED IN TALKS BECAUSE IT WOULD ONLY EMBOLDEN HAWKS IN ITALY. HE SUGGESTED A NEUTRAL AGENDA, SUCH AS REVIEWING REVISION ISSUES AND EXCHANGE OF VIEWS ON US CHARTER DRAFT, PLUS ALL OTHER IMMEDIATE ISSUES. HE DID NOT EXPECT US TO MAKE ANY OFFERS ON REVISING OF EXISTING AGREEMENT AND HE WOULD AVOID CRITICIZING US FOR ONLY

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TALKING ABOUT THESE ISSUES IF USDEL AVOIDED REMONSTRATING
RE NECESSITY FOR CHARTER AGREEMENT AS PART OF PACKAGE.
STYLES AGREED TO THIS SCENARIO, SO LONG AS IT WAS CLEAR
THAT US POSITION ON INCLUSION CHARTERS WAS IRREVOCABLE.
FARACE SAID HE UNDERSTOOD US POSITION PERFECTLY AND
PRIVATELY DID NOT DISAGREE.

11. AS RESULT FOREGOING, CONSULTATIONS TOOK BY NOW WELL
KNOWN PATH OF POLITE DISAGREEMENT ON VIRTUALLY ALL
QUESTIONS. ONLY SHARP REMARK WAS STYLES' SPEECH ABOUT
747F TO WHICH ITALDEL SIMPLY LISTENED.

12. IT MAY BE NOTEWORTHY THAT FARACE CHOSE SIMPLY TO NOTE
WE HAD AGREED TO DISAGREE ON LAST SUMMER'S CAPACITY AND
TO AVOID CALLING FOR FREEZE.LATTER QUESTION COULD STILL
ARISE, HOWEVER, WITH REGARD TO US AIRLINE SERVICES BEYOND
ROME, PARTICULARLY PAN AM. RE BUDGET FARE, WE WOULD GUESS
THAT ITALIANS WILL NOT ATTEMPT TO ENFORCE A PROHIBITION
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DURING REMAINDER OF WINTER SEASON, BUT IT MAY FOR SUMMER
SEASON. VANCE

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# Message Attributes

**Automatic Decaptioning:** X
**Capture Date:** 26 sep 1999
**Channel Indicators:** n/a
**Current Classification:** UNCLASSIFIED
**Concepts:** AVIATION AGREEMENTS, NEGOTIATIONS
**Control Number:** n/a
**Copy:** SINGLE
**Draft Date:** 02 feb 1978
**Decaption Date:** 01 jan 1960
**Decaption Note:**
**Disposition Action:** RELEASED
**Disposition Approved on Date:**
**Disposition Case Number:** n/a
**Disposition Comment:** 25 YEAR REVIEW
**Disposition Date:** 20 Mar 2014
**Disposition Event:**
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**Document Unique ID:** 00
**Drafter:** EB/OA/AN:WARILEY:JG
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**Original Handling Restrictions:** n/a
**Original Previous Classification:** n/a
**Original Previous Handling Restrictions:** n/a
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